He will find placed among the liabilities an item entitled " Eebate on bills not due." On the 30th of September, we will assume, the bank discounted a bill of exchange which one of its customers had drawn for £500 upon a solvent firm for goods delivered, and payable by the firm at the expiration of six months from that date. The process of discounting the bill is to credit the customer's account with its amount (£500), diminished by the interest for the currency or term of the bill at the prevailing rate—if, for example, the rate were 4 per cent the customer would be[4] credited with £490. The bank's half-yearly balance-sheet is prepared on the 31st of December. If, then, in the distribution of its profits for that period the bank used up the entire six months' interest (or £10) which it had charged, the ensuing half-year's account would be improperly depleted of its portion of the discount (as a contribution to profits) for the period intervening between the 31st of December and the date when the bill matures. Hence the bank in respect of the half-year to the 31st of December credits itself only with the discount (or interest accrued) to that date (£5), and debits itself as a liability with the remainder (or £5) for the rest of the term.

Suppose, then, that a bond of £100 bearing interest at 3 per cent per annum, which is payable in half-yearly instalments on the 1st of January and July, is purchased on the 1st of April at the price of 90|. This price, however, does not represent the value of the capital amount itself. Eor—omitting the consideration of extraneous circumstances which may affect the value of the bond, such as war, the extent of speculation, and many other circumstances—the value continuously increases after each payment of interest is made by the addition of the interest accruing. The interest for the half-year is £1 10s.; the proportion of this current interest from the date of the preceding payment to the time of purchase is one-half of £1 10s., or 15$. (since three months have expired); hence the capital value alone of the bond is 90, or the actual cost of 90|, diminished by the accrued interest. This accrued amount is paid by the buyer to the seller, but the former recovers it

when he himself receives the ensuing periodical payment of interest. The price accordingly given in this